



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
FORMER FLOYD COUNTY SHERIFF**

Calendar Year 1998

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Edward B. Hatchett, Jr. Auditor of Public Accounts

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Paul H. Thompson, County Judge/Executive and Former Sheriff

Honorable John K. Blackburn, Floyd County Sheriff

Members of the Floyd County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the former Sheriff of Floyd County, Kentucky, for the year ended December 31, 1998. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the former Sheriff is required to prepare the financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles. This cash basis system does not require the maintenance of a general fixed asset group or general long-term debt group of accounts. Accordingly, the accompanying financial statement is not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the former Sheriff for the year ended December 31, 1998, in conformity with the basis of accounting described above.

To the People of Kentucky

Honorable Paul E. Patton, Governor

John P. McCarty, Secretary

Finance and Administration Cabinet

Mike Haydon, Secretary, Revenue Cabinet

Honorable Paul H. Thompson, County Judge/Executive and Former Sheriff

Honorable John K. Blackburn, Floyd County Sheriff

Members of the Floyd County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following areas of noncompliance:

- The Former Sheriff Should Have Maintained An Adequate County Revenue Bond
- The Former Sheriff Should Eliminate The \$2,683 Deficit In The 1995 Official Fee Account
- The Former Sheriff Should Have Presented An Annual Financial Statement To The Fiscal Court And Published The Financial Statement in Accordance With KRS 424.220
- The Former Sheriff Should Issue Amended 1998 W-2 Wage Statements To All Employees And Collect Overpayments Of Payroll Taxes From The IRS
- The Former Sheriff Should Pay Additional 1998 Excess Fees Of \$20,231 To The Fiscal Court

In accordance with Government Auditing Standards, we have also issued a report dated October 4, 1999, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -
October 4, 1999

FLOYD COUNTY
 PAUL H. THOMPSON, FORMER SHERIFF
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

Calendar Year 1998

Receipts

Federal Grants		\$	100,728
U.S. Army Corps of Engineers			25,911
State Fees For Services:			
Finance and Administration Cabinet	\$	89,389	
Cabinet For Human Resources		<u>4,900</u>	94,289
Sheriff Fees:			
Advertising			1,315
Circuit Court Clerk:			
Circuit Court Fees	\$	24,071	
Arrest Fees		2,925	
Fuel Excise Tax Refund		<u>1,247</u>	28,243
County Clerk - Delinquent Taxes			34,125
Commission On Taxes Collected			300,546
Fees Collected For Services:			
Auto Inspections	\$	10,997	
Accident and Police Reports		170	
Serving Papers		20,430	
Sheriff Security Service		<u>136,580</u>	168,177
Other:			
DARE	\$	552	
Carrying Concealed Deadly Weapon Permits		6,240	
Election Commission		25	
Payroll (Domestic Violence)		5,600	
KLEFPS		19,936	
Refund		238	
Confiscated Money		4,541	
Miscellaneous		<u>3,161</u>	40,293
Interest Earned			13,789
Borrowed Money:			
State Advancement			<u>120,000</u>
Total Receipts (Carried Forward)		\$	<u>927,416</u>

FLOYD COUNTY
 PAUL H. THOMPSON, FORMER SHERIFF
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 Calendar Year 1998
 (Continued)

Total Receipts (Brought Forward)		\$	927,416
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Disbursements

Operating Disbursements:

Personnel Services-

Deputies' Salaries	\$	308,143
KLEFPF		16,599
Clerks' Salaries		142,435
Domestic Violence Payroll		4,400

Employee Benefits-

Employer's Share Social Security		46,494
FUTA		9,314

Contracted Services-

Advertising		357
Vehicle Maintenance and Repairs		1,671

Materials and Supplies-

Office Materials and Supplies		8,204
Uniforms		6,499

Other Charges-

Conventions and Travel		286
Dues		500
Postage		3,005
Bank Charges		173
Bond		959
DARE Expense		5,069
Executions		4,804
Carrying Concealed Deadly Weapon Permits		4,360
Computer Services		9,219
Miscellaneous		4,387
Auto Expense		74,708
Accounting Fees		6,692
Returned Checks		250
Grants		9,841
	\$	119,330

Debt Service:

State Advancement		120,000
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Total Disbursements	\$	788,369
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Net Receipts	\$	139,047
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Less: Statutory Maximum		48,726
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Excess Fees	\$	90,321
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Payment to County Treasurer - February 22, 1999		70,000
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Balance Due at Completion of Audit	\$	20,321
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The accompanying notes are an integral part of the financial statement.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting pursuant to KRS 68.210 as recommended by the State Local Finance Officer. Revenues and related assets are generally recognized when received rather than when earned. Certain expenses are recognized when paid rather than when a liability is incurred, including capital asset purchases. Certain other expenses are recognized when a revenue and the related asset can be associated with a corresponding liability due another governmental entity.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.65 percent. Benefits fully vested on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

FLOYD COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 1998
(Continued)

Note 2. Employee Retirement System (Continued)

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The former Sheriff met the requirements stated above, and as of December 31, 1998, deposits were fully insured or collateralized at a 100% level with securities held by the county official's agent in the county official's name.

Note 4. Mountain Area Drug Task Force

The former Sheriff maintained a Drug Task Force Account, which was funded by a grant to the county. This fund was used to pay for expenses of the Drug Task Force and other miscellaneous items. This account had a beginning balance of \$21,161 as of January 1, 1998. Interest during calendar year 1998 was \$460. Bank charges totaling \$58 were expended during calendar year 1998 leaving a balance of \$21,563. Subsequent to calendar year 1998, the former Sheriff paid the remaining balance of \$21,563 to the Fiscal Court.

COMMENTS AND RECOMMENDATIONS

FLOYD COUNTY
PAUL H. THOMPSON, FORMER SHERIFF
COMMENTS AND RECOMMENDATIONS

Calendar Year 1998

STATE LAWS AND REGULATIONS:

1. The Former Sheriff Should Have Maintained An Adequate County Revenue Bond

During the audit, we found that the former Sheriff's county revenue bond was not approved by the Fiscal Court. In addition, the premium on the bond was not paid. KRS 134.250 requires the Sheriff's office to have a bond ". . . sufficient to cover all money collected by him." KRS 134.250 also states the bond must be approved by the Fiscal Court, recorded in the Fiscal Court minutes, and filed by the Fiscal Court with the County Clerk. In addition, KRS 62.156 states the Sheriff's office may direct the county to pay bond premiums. We recommend the Sheriff's office obtain a bond sufficient enough to protect the county from potential loss.

Management's Response:

The bond was presented to the Fiscal Court as verified by the Fiscal Court minutes, however, the former County Judge Executive refused to sign the bond. Even without the Judge's signature, we did get the bond.

2. The Former Sheriff Should Eliminate The \$2,683 Deficit In The 1995 Official Fee Account

Former Sheriff Paul H. Thompson had a total fund deficit in his 1995 Fee Account of \$8,183. This deficit was the result of the former Sheriff receiving \$1,662 in salary in excess of the statutory maximum and spending in excess of receipts. The former Sheriff also incurred an audit fee of \$5,500; this, plus an unexplained balance of \$1,021, created a shortage of funds available in the 1995 account. This 1995 deficit was reduced by \$5,500 when the Fiscal Court paid the above mentioned audit fee for the 1995 audit, resulting in a remaining deficit of \$2,683. We recommend the former Sheriff eliminate the remaining deficit by depositing personal funds of \$2,683 into his 1995 Fee Account.

Management's Response:

No Comment.

3. The Former Sheriff Should Have Presented An Annual Financial Statement To The Fiscal Court And Published The Financial Statement In Accordance With KRS 424.220

The former Sheriff did not present an annual financial statement to the Fiscal Court. KRS 134.310 requires a statement of receipts and disbursements for all funds of the Sheriff's office to be submitted to the Fiscal Court at the time the Sheriff files and makes his final tax settlement. In addition, KRS 424.220 requires financial statements to be published within 60 days after the close of the calendar year. We recommend the Sheriff's office present an annual financial statement to the Fiscal Court and publish the financial statement within 60 days after the close of the year.

Management's Response:

Management concurs with auditor's recommendation.

FLOYD COUNTY
PAUL H. THOMPSON, SHERIFF
COMMENTS AND RECOMMENDATIONS
Calendar Year 1998
(Continued)

4. The Former Sheriff Should Issue Amended 1998 W-2 Wage Statements To All Employees
And Collect Overpayments Of Payroll Taxes From The IRS

During the audit, we determined that the 1998 employee W-2 wage statements were overstated. Our test of payroll resulted in variances for each employee when comparing individual earnings records with W-2 wage statements. As a result of the overstatement of W-2 forms, the former Sheriff erroneously paid \$7,021 in additional Federal 941 Tax deposits. We recommend the former Sheriff issue corrected W-2 wage statements to the employees and obtain a refund for the amount of payroll tax overpaid.

Management's Response:

The employees were paid correctly. The CPA issued improper W-2 forms, which they are in the process of correcting, and filing for the refund of the \$7,021.

5. The Former Sheriff Should Pay Additional 1998 Excess Fees Of \$20,321 To The Fiscal Court

The former Sheriff owes additional excess fees of \$20,321 to the Floyd County Fiscal Court. KRS 134.310 requires the Sheriff to make settlement with the Fiscal Court. We recommend the former Sheriff pay the Fiscal Court \$20,321 for additional excess fees.

Management's Response:

Management concurs with auditor's recommendation.

PRIOR YEAR:

- The Former Sheriff Should Have Maintained An Adequate County Revenue Bond
- The Former Sheriff Should Eliminate The Deficit in the 1995 Official Fee Account
- The Former Sheriff Should Have Presented An Annual Financial Settlement To The Fiscal Court

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable Paul H. Thompson, County Judge/Executive and Former Sheriff
Honorable John K. Blackburn, Floyd County Sheriff
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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Floyd County Sheriff as of December 31, 1998, and have issued our report thereon dated October 4, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Floyd County Sheriff's financial statement as of December 31, 1998, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying Comments and Recommendations.

- The Former Sheriff Should Have Maintained An Adequate County Revenue Bond
- The Former Sheriff Should Eliminate The \$2,683 Deficit In The 1995 Official Fee Account
- The Former Sheriff Should Have Presented An Annual Financial Statement To The Fiscal Court And Published The Financial Statement In Accordance With KRS 424.220
- The Former Sheriff Should Issue Amended 1998 W-2 Wage Statements To All Employees And Collect Overpayments Of Payroll Taxes From The IRS
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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control

In planning and performing our audit, we considered the former Floyd County Sheriff internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 4, 1999

